

Message Text

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ACTION EB-06

INFO OCT-01 EA-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-05

LAB-01 NSAE-00 RSC-01 SP-02 STR-01 TRSE-00 SWF-01

CIEP-01 FRB-01 OMB-01 L-02 SS-15 NSC-05 H-01 /055 W

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P R 080839Z NOV 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 3403

INFO AMEMBASSY TAO KYO

AMEMBASSY SEOUL

AMEMBASSY MANILA

AMEMBASSY BANGKOK

AMCONSUL HONG KONG

USLO PEKING

S E C R E T TAIPEI 6774

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: COTTON CONTRACT PROBLEM

STATE PASS AGRICULTURE FOR WILLIAMS

REF: A) STATE 243685 B) STATE 242394

C) STATE 241237 D) STATE 241119

1. SUMMARY: FROM MY CONVERSATION WITH HIM YESTERDAY I LEARNED
PREMIER CHIANG CHING-KUO IS AWARE OF
COTTON CONTRACT PROBLEM AND ITS RAMIFICATIONS AND HE HAS
INSTRUCTED BOARD OF FOREIGN TRADE (BOFT) TO SEEK A
SPEEDY SOLUTION. MEETING BETWEEN BOFT AND TAIWAN
COTTON SPINNERS ASSOCIATION (TCSA) HAVE BEEN GOING ON
SINCE NOVEMBER 4. SEVERAL MILLS REPORTEDLY HAVE AGREED
TO OPEN L/C'S AND OTHER MILLS MAY BE EXPECTED TO DO SO
ONCE LOAN ARRANGEMENTS WITH BANK OF TAIWAN AND MINISTRY
OF FINANCE (MOF) ARE CONCLUDED. LATTER IS ALSO CON-
SIDERING PURCHASING CONTRACTS FROM MILLS UNABLE TO

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OBTAIN LOANS. EMBOFFS WILL MEET WITH BOFT NOVEMBER 11

TO REVIEW SITUATION. END SUMMARY.

2. DURING MEETING WITH PREMIER CHIANG CHING-KUO NOVEMBER 7, I ASKED HIM IF HE HAD RECEIVED A REPORT OF Y.S. SUN'S (SUN YUN-HSUAN) CONVERSATIONS IN WASHINGTON ON COTTON CONTRACT PROBLEM BETWEEN U.S. COTTON EXPORTERS AND ROC TEXTILE MILLS. PREMIER STATED THAT HE HAD. I EMPHASIZED PARTICULAR INTEREST CONGRESSIONAL REPRESENTATIVES COTTON STATES AND OUR CONCERN ABOUT SERIOUS IMPACT NON-FULFILLMENT COTTON CONTRACTS WOULD HAVE ON FARMERS IN THOSE STATES. I ALSO EXPRESSED HOPE THAT HROC WOULD DEVISE WAY RESOLVE PROBLEM, MENTIONING TEMPORARY FINANCIAL ASSISTANCE TO MILLS AAS ONE POSSIBILITY. PREMIER INDICATED HE FULLY AWARE OF PROBLEM AND SAID THAT UPON RECEIPT OF MINISTER SUN'S REPORTS HE INSTRUCTED BOARD OF FOREIGN TRADE (BOFT) TO MEET WITH TAIWAN COTTON SPINNERS ASSOCIATION (TCSA). PURPOSE OF MEETINGS WAS TO (A) URGE MIULLS FINANCIALLY CAPABLE OF DOING SO TO HONOR CONTRACTS WITH U.S. EXPORTERS BY OPENING L/C'S AND (B) DETERMINE MEANS BY WHICH GROC COULD ASSIST MILLS IN POOR FINANCIAL CONDITION IN OPENING L/C'S.

3. H.K. SHAO (SHAO HSUEH-KUEN), WHO IS ACTING DIRECTOR OF BOFT IN ABSENCE OF DIRECTOR WANG I-TING, WHO IS WITH MINISTER SUN IN LATIN AMERICA, REPORTED TO ECON COUNS MORNING UOF NOVEMBER 4 THAT HE WOULD BE MEETING THAT AFTERNOON WITH TCSA. HE SUBSEQUENTLY REPORTED ON NOVEMBER 7 THAT MEETINGS HAVE BEEN TAKING PLACE TWICE DAILY AND THAT "CONSIDERABLE PROGRESS IS BEING MADE". ACCORDING TO SHAO, FIVE MILLS HAVE AGREED TO OPEN L/C'S BEFORE END OF NOVEMBER AND "A NUMBER OF OTHER MILLS" ARE PREPARED TO OPEN L/C'S AS SOON AS FINANCING CAN BE ARRANGED WITH BANK OF TAIWAN AND MINISTRY OF FINANCE.

4. WE HAVE NOT BEEN ABLE TO CORROBORATE SHAO'S STATEMENTS SINCE NORMALLY EXCELLENT CONTACTS AMONG MILL OWNERS REFUSE TO COMMENT ON MEETINGS WITH BOFT. WE ARE HOPEFUL, HOWEVER, THAT BOFT'S EFFORTS WILL RESULT IN RESOLUTION OF CONTRACT PROBLEM TO

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SATISFACTION OF AMERICAN COTTON SHIPPERS' ASSOCIATION. NOW APPEARS SATISFACTORY SOLUTION WILL DEPEND LARGELY ON GROC WILLINGNESS TO PROVIDE FUNDS TO MILLS FINANCIALLY UNABLE TO PURCHASE COTTON AT CONTRACTED PRICE. WE HAVE RELIABLE INFORMATION THAT BANK OF TAIWAN HAS NOTIFIED MOF THAT IT WILL EXTEND LOANS TO FINANCIALLY SOUND TEXTILE MILLS TO COVER COSTS OF COTTON PURCHASES BUT ONLY AT "CURRENT MAKRKET PRICE". SINCE THAT PRICE

IS CONSIDERABLY BELOW PRICE CONTRACTED WITH ACSA MEMBERS, THE BANK OF TAIWAN REPORTEDLY HAS ASKED MOF TO MAKE UP THE DIFFERENCE.

5. EVEN ASSUMING THAT THE MILLS IN A FINANCIAL POSITION TO DO SO OPEN L/C'S AND THE BANK OF TWAIWAN PROVIDES LOANS TO OTHER SELECTED MILLS, THERE ARE A NUMBER OF MILLS WHICH FOR ONE REASON OR ANOTHER WILL BE UNABLE TO HONOR CONTRACTS. BECAUSE OF POOR MARKET CONDITIONS FOR COTTON TEXTILES, SEVERAL SMALL MILLS EITHER HAVE CLOSED OR HAVE NEVER OPENED AND OTHERS WILL BE CLOSING SOON BARRING AN UPTURN IN THE MARKET. IF THE CONTRACTS INTO WHICH THEY ENTERED ARE TO BE HONORED, THE MOF WILL HAVE TO PURCHASE THE COTTON, AND IT REPORTEDLY IS CONSIDERING DOING SO.

6. ECON COUNS, AGATT AND MICHAEL B. SMITH (EB/ORF/FTD) WILL MEET WITH H.K. SJHAO NOVEMBER 11 TO REVIEW SITUATION. IT IS HOPED THAT BY THAT TIME SUHAO WILL BE ABLE TO PROVIDE PRECISE INFORMATION ON MILLS WHICH HAVE OPENED OR HAVE AGREED TO OPEN L/C'S AND THE MEASURES THE GROC PROPOSES TO TAKE TO ASSIST THE OTHER MILLS. UNGER

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